



## **STRATEGIC PLAN**

**FISCAL YEARS 2008-2011**

**Submitted this 2<sup>nd</sup> day of July 2007**

A handwritten signature in black ink, appearing to read "J. Anderson", followed by a long horizontal line extending to the right.

**Jeffrey R. Anderson, Director**

## **I. Mission Statement**

*The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho public schools and buildings.*

## **II. Goals**

- 1. Protect the security and integrity of our games**
- 2. Responsibly increase net revenues**
- 3. Rigorously manage costs**
- 4. Guard the honesty of charitable gaming**

## **III. Objectives**

**1 - Protect the security and integrity of Idaho Lottery games** by continuing to meet or exceed the Multi-State Lottery Association (MUSL), National Association for State and Provincial Lotteries (NASPL), and internal Idaho Lottery security standards.

Since January 2007, the Lottery has upgraded our security processes and procedures relating to monitoring and tracking retailer “insider wins”, encouraging players to sign winning tickets before presenting them for validation, lowering the prize threshold for security involvement in processing claims, and internal control system and gaming system access by Lottery employees and vendors. We continue to conduct aggressive background checks of all Lottery/vendor employees and retailers for criminal, financial, and conflict of interest issues that could affect the integrity of our games.

**2 - Responsibly increase net revenues** by increasing total sales, improving the net game revenue from our portfolio of products, and by lowering the cost of goods sold.

Lottery game revenue is generated from three authorized play formats:

- on-line games – Powerball, Wild Card, Idaho Pick 3
- instant ticket games – Scratch Games® in various price points
- pull-tab games – break-open play format that reveals prize amounts

Net game revenue varies by game, subject to the prize pool returned to players and the cost of goods sold. Scratch Games® and pull-tabs have higher prize payouts and overall costs than on-line games. In order to increase net game revenues, we will increase total sales, increase the ratio of on-line to Scratch Games® and pull-tabs, and lower the cost of goods sold.

On-line games – increase overall sales and as a percentage of total sales by recruiting additional retail outlets, promoting on-line product bundling, effectively promoting sales of the Powerball Powerplay option, augmenting the product line-up with a new multi-state game, and the introduction of a statewide raffle. *(Cost of goods sold includes the prize pool and a 1.98% fee of on-line sales paid to gaming system provider Intralot.)*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Powerball	\$38,223,246	\$44,871,763	\$30,038,337
Wild Card	\$6,360,594	\$3,272,333	\$3,194,824
Idaho Pick 3	<u>\$1,418,776</u>	<u>\$1,212,959</u>	<u>\$1,190,309</u>
Total Sales	<u>\$46,004,623</u>	<u>\$49,359,061</u>	<u>\$34,425,475</u>
Change from prior year	(\$3,354,438)	\$3,240,263	(\$5,105,477)

Instant ticket games – increase sales by recruiting additional retail outlets, continuing to introduce unique play formats and styles, promoting higher price point games, improving in-store product displays, and increasing product turnover. *(Cost of good sold includes the prize pool, shipping to retailers, a 1.98% fee of instant ticket sales to gaming system provider Intralot, and (effective October 1, 2007) a 1.55% fee of instant ticket sales to proposed primary instant ticket printer Scientific Games Inc.)*

	<u>2007</u>	<u>2006</u>	<u>2005</u>
One-dollar games	\$11,488,607	\$13,376,481	\$15,386,911
Two-dollar games	\$8,825,982	\$9,730,284	10,907,352
Three-dollar games	\$29,893,590	\$31,190,340	31,112,193
Four-dollar games	\$0	\$0	799,360
Five-dollar games	\$14,239,072	\$10,777,774	6,499,258
Seven-dollar games	\$7,508,788	\$6,281,898	3,292,725
Ten-dollar games	\$5,232,300	\$3,993,800	4,008,460
fifteen-dollar games	<u>\$6,014,520</u>	<u>\$5,636,340</u>	<u>5,740,395</u>
Total Sales	<u>\$83,202,859</u>	<u>\$80,986,917</u>	<u>\$77,746,654</u>
Change from prior year	\$2,215,942	\$3,240,263	\$9,230,483

Pull-tab games – increase sales by recruiting additional commercial and charitable retail outlets and by engaging printing vendor partners in executing best practices from other jurisdictions. (*Cost of goods sold includes the prize pool, shipping to retailers, a 1.98% fee of pull-tab sales to gaming system provider Intralot, and printing costs.*)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Pull-tabs	<u>\$1,284,305</u>	<u>\$966,360</u>	<u>\$1,325,250</u>
Total Sales	<u>\$1,284,305</u>	<u>\$966,360</u>	<u>\$1,325,250</u>
Change from prior year	\$317,945	(\$358,890)	\$152,760

**3 - Rigorously manage costs** by controlling and lowering the expense of operating the Lottery through negotiating favorable vendor contracts for services, replacing vehicles on the normal schedule with a more fuel-efficient fleet, and implementing continuous process improvement.

The current contract with Intralot is resulting in approximately \$7 million (20%) in savings over the ten year term versus the previous contract with GTECH. Agreements for cellular services and UPS shipping have been renegotiated and are resulting in approximately 7% savings over previous agreements. Instant ticket printing services are in negotiation as of this writing and will likely result in approximately \$5.5 million (28%) in savings over the pending eight-year term of the proposed new contract versus the previous contract with Oberthur Gaming Technologies.

As our fleet of vehicles for salespeople is replaced on its normal cycle, we will be replacing vans with smaller, more fuel-efficient, ultra-low emission vehicles. This is possible due to the new contract with Intralot which requires them to ship point-of-sale materials directly to retailers as opposed to salespeople delivering them in their large vans.

The Lottery has just completed a thorough strategic planning session that led to the creation of teams focused on continuous process improvement. Over time, we will create operational efficiencies and customer service improvements.

**4 - Guard the honesty of charitable gaming** by continuing to rigorously enforce licensing and oversight procedures of charitable bingo and raffle operators.

## IV. Performance Measures

The most effective measures of an enterprise operation such as the Idaho Lottery are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal yardstick criteria.

Internal yardsticks include comparing our performance to a peer group of like jurisdictions as well as national averages for state-run lotteries. The criteria will include, but not be limited to, our performance compared to the mean and median percentage change in retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, on-line sales, instant ticket sales, prize pool to sales, and product mix. The peer group is comprised of Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, South Dakota, Tennessee, and Vermont. Our goal is to become the highest performing jurisdiction in North America.

## V. Bench Marks

	<u>FY-2008</u>	<u>FY-2009</u>	<u>FY-2010</u>	<u>FY-2011</u>
Lotto Sales:				
Powerball	\$40,000,000	\$41,000,000	\$42,000,000	\$43,000,000
Wild Card	4,500,000	4,600,000	4,700,000	4,800,000
Idaho Pick 3	1,500,000	1,600,000	1,700,000	1,800,000
New- mult-state game	1,000,000	1,100,000	1,200,000	1,800,000
New-raffle game	<u>1,000,000</u>	<u>1,100,000</u>	<u>1,200,000</u>	<u>1,300,000</u>
Total Lotto Sales	\$48,000,000	\$49,400,000	\$50,800,000	\$52,700,000
Scratch ticket sales	\$84,000,000	\$85,000,000	\$86,000,000	\$87,000,000
Pull-tab ticket sales	<u>\$1,300,000</u>	<u>\$1,400,000</u>	<u>\$1,500,000</u>	<u>\$1,600,000</u>
Total Sales	\$133,300,000	\$135,800,000	\$138,300,000	\$141,300,000
 Total Expenditures	 \$98,800,000	 \$100,800,000	 \$102,800,000	 \$105,300,000
 Net Income	 <u><u>\$34,500,000</u></u>	 <u><u>\$35,000,000</u></u>	 <u><u>\$35,500,000</u></u>	 <u><u>\$36,000,000</u></u>

## VI. External Factors

The primary external factor that may affect performance to plan is the jackpot phenomenon. On-line sales are directly related to the size of

jackpots. As noted below, when jackpots grow sales grow. Experience indicates driving sales in low jackpot cycles is challenging. However, as mentioned above, we intend to address the issue through product bundling, augmentation of the on-line product lineup, and effective marketing.

#### POWERBALL JACKPOTS

<u>Year</u>	<u>Average Announced Jackpot Per Draw</u>	<u>Average Sales Per Draw</u>	<u>Annual Sales</u>
2007	\$69,703,810	\$365,460	\$38,223,546
2006	\$82,342,192	\$430,385	\$44,760,077
2005	\$49,202,885	\$289,351	\$30,092,519
2004	\$62,099,048	\$339,498	\$35,647,385
2003	\$49,337,500	\$302,959	\$31,577,648

Additionally, external factors that may impact our ability to deliver performance to plan include, but are not limited to, deterioration of general economic conditions, terrorism, war, and Acts of God.